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MID INDUSTRIES AND EXPLORATIONS LIMITED

20TH ANNUAL REPORT — DECEMBER 31, 1975

REPORT OF THE DIRECTORS

To the Shareholders:

FINANCIAL POSITION

The weaknesses in our market areas in the latter part of 1974 persisted through the first half of 1975. However, the general situation has improved in the last six months.

Total sales were $33,648,699, a marginal decrease from the 1974 figure of $34,287,962. Earnings before extraordinary item were $200,946 as compared to $327,230 in 1974.

The overall result after an extraordinary item resulting from income tax recovery of $45,000, was an after tax profit of $245,946 ($0.049 per share) in 1975, as compared to $423,230 ($0.085 per share) in 1974.

Working capital showed a slight decrease of $86,684, due mostly to the funds commited to investment in the natural gas industry. Cash flow was down from $0.25 per share in 1974 to $0.20 per share in 1975. A capital distribution of $100,000 ($0.02 per share) was paid in 1975.

COMPANY OPERATIONS

Sales and leasing operations of Dingwall Ford Sales and Windsor Car Rentals in Windsor Ontario were very satisfactory and are responsible for a large part of the company's earnings in 1975.

Toronto operations, which are mainly concentrated in the commercial field involving sales, service and leasing of trucks by Sherway Ford Truck Sales, Sherway Leasing and Mid Collision, showed a decline in profits from 1974. This was due to increased overhead and expenses incurred during a year of declining sales activity throughout the entire market. It appears that some improvement can be expected in the coming year providing the business climate is not adversely affected by the controls legislation and other restraining factors.

GAS & OIL INTERESTS

The company owns a 3.3% gross overriding royalty on 22,000 acres in the Princess area of Alberta. Production of gas commenced in January 1976 on this property. The existing wells should be fully productive by April 1976. Future plans call for more development on this acreage.

During the year the company purchased a 75% interest in 3¼ sections of land in the Medicine Hat area of Alberta. Seven wells have been drilled and are now on stream producing 1,000,000 cubic feet of natural gas per day.

The company is projecting an annual cash flow in excess of $200,000 from these interests before operating expenses. It is the intention of the company to look for other investments in the oil and gas industry in order to augment earnings and cash flow in future years.

EMPLOYEE DEFERRED PROFIT SHARING PLAN

Based on the results of 1975, a contribution of $24,000 was made to the plan. Most of the funds were invested in the common shares of Mid Industries & Explorations Limited, with the result that employees presently own approximately 5% of the equity of the company through this plan.

OUTLOOK

The management group feel that 1976 will be a satisfactory year. The key factor will be the ability to control costs in the inflationary climate we are now experiencing. It is to be hoped that the government controls will have the desired effect without unduly affecting the functioning of the marketplace.

The income from the Alberta gas interests, along with the gradual strengthening of the truck market should ensure a successful year.

APPRECIATION

The true test of a company is its performance in a year when the economy is faced with problems. For the support of our customers and suppliers and for the enthusiastic efforts of our employees during the year, the Directors would like to express their sincere appreciation.

Respectfully submitted,

W. G. Dingwall
President

MID INDUSTRIES AND EXPLORATIONS LIMITED

DIRECTORS
W. G. DINGWALL, Toronto, Ont.
R. J. GIRARD, Windsor, Ont.
S. McKEOUGH, Cedar Springs, Ont.
A. D. PATTERSON, Toronto, Ont.
N. M. SHAW, Montreal, Que.
J. R. SHEMILT, Willowdale, Ont.
H. S. TENNANT, London, Ont.

OFFICERS
W. G. DINGWALL, President-Chief Executive Officer
A. D. PATTERSON, Vice-President
R. J. GIRARD, Vice-President
R. I. MARTIN, Q.C., Secretary-Treasurer
MISS EDITH GRAF, Asst. Secretary
H. S. TENNANT, Asst. Treasurer

HEAD OFFICE
Suite 1010, 615 Dorchester Blvd. West,
Montreal, Quebec H3B 1P9

EXECUTIVE OFFICES
110 Church Street
Toronto, Ontario M5C 2G6

CO-TRANSFER AGENTS AND REGISTRAR
ROYAL TRUST COMPANY
630 Dorchester Blvd. West,
Montreal, Quebec H3B 3L5

ROYAL TRUST COMPANY
Royal Trust Tower — P.O. Box 7500
Station "A", Toronto, Ontario M5W 1P9

AUDITORS
CLARKSON, GORDON & CO.
Windsor, Ontario

LISTED
Montreal Stock Exchange

COMPARATIVE HIGHLIGHTS

	1975	1974
Sales	**$33,648,699**	$34,287,962
Income before tax and extraordinary items	**409,946**	716,230
Net income before extraordinary item	**200,946**	327,230
Net income after extraordinary item	**245,946**	423,230
Earnings per share	**0.049**	0.085
Capital distribution	**100,000**	100,000
Capital distribution per share	**0.02**	0.02
At December 31st:		
Shareholders' equity	**1,896,387**	1,750,441
Equity per common share	**0.38**	0.35
Working capital	**1,190,231**	1,276,915
Cash flow from operations	**1,029,233**	1,259,365
Cash flow per share	**0.20**	0.25
Total employees	**218**	222
Total payroll for the year	**3,207,411**	3,004,459
Total employee benefits	**136,828**	127,377
Net income as a % of sales, excluding extraordinary items	**.5%**	.9%
Net income as a % of shareholders' equity	**10.6%**	18.7%

MID INDUSTRIES AND EXPLORATIONS LIMITED

(No Personal Liability)
(Incorporated under the Quebec Mining Companies Act)

CONSOLIDATED BALANCE SHEET, DECEMBER 31, 1975

ASSETS

	1975	1974
Current:		
Marketable securities, at cost less provision for loss (market value 1975 — $92,613; 1974 — $90,150)	$ 90,150	$ 90,150
Accounts receivable	2,972,491	3,407,403
Inventories (note 2)	4,534,464	6,915,565
Deferred income taxes	19,000	
Prepaid expenses	28,840	19,654
Total current assets	7,644,945	10,432,772
Lease:		
Lease purchase contracts, net of deferred revenue	1,369,269	1,022,421
Leased vehicles, at cost less accumulated depreciation	2,039,603	1,659,459
Rental vehicles, at cost less accumulated depreciation	33,709	164,330
Net Lease assets	3,442,581	2,846,210
Gas and oil interests (note 3)	600,428	291,700
Fixed, at cost:		
Furniture and fixtures, equipment and leasehold improvements	794,890	704,275
Less accumulated depreciation and amortization	448,382	362,367
Net fixed assets	346,508	341,908
Other:		
Long-term accounts receivable (note 4)	41,250	86,250
Excess of cost of shares acquired over fair value of underlying net assets of subsidiary companies at date of acquisition	739,509	739,509
Total other assets	780,759	825,759
	$12,815,221	$14,738,349

LIABILITIES AND SHAREHOLDERS' EQUITY

	1975	1974
Current:		
Bank indebtedness	$ 621,557	$ 411,836
Accounts payable and accrued liabilities	1,092,516	984,364
Customer deposits	119,769	74,804
Income and other taxes payable	99,353	150,144
Lien notes (note 5)	4,182,999	7,296,209
Deferred revenue	23,020	
Current portion of long-term liabilities (note 6)	315,500	238,500
Total current liabilities	6,454,714	9,155,857
Long-term liabilities (note 6)	4,039,120	3,482,051
Deferred income taxes	425,000	350,000
Shareholders' equity:		
Capital stock (note 7) —		
Authorized:		
7,500,000 common shares of no par value		
Issued:		
5 000,000 shares	2,131,257	2,231,257
Deficit (statement 2)	(234,870)	(480,816)
Net shareholders' equity	1,896,387	1,750,441
	$12,815,221	$14,738,349

On behalf of the Board:

Director: W. G. DINGWALL
Director: J. R. SHEMILT

(See accompanying notes)

MID INDUSTRIES
AND EXPLORATIONS LIMITED
(No Personal Liability)

CONSOLIDATED STATEMENT OF NET EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1975
(with comparative amounts for 1974)

	1975	1974
Sales and earned income	$33,648,699	$34,287,962
Costs and expenses:		
Cost of sales and expenses exclusive of the undernoted items	32,038,484	32,328,386
Depreciation and amortization —		
Leased and rental vehicles	619,536	647,647
Furniture and fixtures, equipment and leasehold improvements	88,741	85,988
Interest on long-term liabilities	491,992	509,711
	33,238,753	33,571,732
Earnings before income taxes and extraordinary item	409,946	716,230
Income tax provision — current	134,000	291,500
— deferred	75,000	97,500
	209,000	389,000
Earnings before extraordinary item	200,946	327,230
Extraordinary item:		
Income tax reductions resulting from application of losses of prior years	45,000	96,000
Net earnings for the year	$ 245,946	$ 423,230
Earnings per share:		
Before extraordinary item	$ 0.040	$ 0.066
Extraordinary item	0.009	0.019
For the year	$ 0.049	$ 0.085

CONSOLIDATED STATEMENT OF DEFICIT

FOR THE YEAR ENDED DECEMBER 31, 1975
(with comparative amounts for 1974)

	1975	1974
Deficit beginning of year	$480,816	$904,046
Net earnings for the year (statement 3)	245,946	423,230
Deficit, end of year	$234,870	$480,816

(See accompanying notes)

MID INDUSTRIES
AND EXPLORATIONS LIMITED
(No Personal Liability)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1975
(with comparative amounts for 1974)

	1975	1974
Funds were provided from:		
Operations:		
Earnings before extraordinary item	$ 200,946	$ 327,230
Add items not requiring an outlay of funds:		
Depreciation and amortization —		
Leased and rental vehicles	619,536	647,647
Furniture and fixtures, equipment and leasehold improvements	88,741	85,988
Deferred income taxes	75,000	97,500
	984,223	1,158,365
Income tax reductions	45,000	96,000
	1,029,223	1,254,365
Reduction of loan to a director	5,000	5,000
Proceeds of new debenture	550,000	
Less repayment of existing debentures	(518,991)	
	31,009	
	1,065,232	1,259,365
Funds were expended on:		
Additions to lease purchase contracts and leased and rental vehicles	2,526,781	1,749,613
Less increase in lien notes	(2,480,962)	(1,714,813)
	45,819	34,800
Additions to fixed assets	93,342	78,136
Investment in gas and oil interests	308,728	286,700
Increase in long-term accounts receivable		40,000
	308,728	326,700
Less portion financed by long-term debt	230,000	100,000
	78,728	226,700
Payment of lien notes	1,872,550	1,998,452
Less book value of lease purchase contracts, leased and rental vehicles disposals	(1,310,875)	(1,486,881)
	561,675	511,571
Payment and provision for payment of other long-term debt	272,352	234,670
Distribution of share capital	100,000	100,000
	1,151,916	1,185,877
Increase (decrease) in working capital	(86,684)	73,488
Working capital, beginning of year	1,276,915	1,203,427
Working capital, end of year	$1,190,231	$1,276,915

(See accompanying notes)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1975

1. Summary of significant accounting policies:

(a) Principles of consolidation
The consolidated financial statements include the accounts of the company and its subsidiaries, all of which are wholly-owned, including Mid Transportation Services Limited (formerly Dingwall Ford Sales Limited) and Windsor Car Rentals Limited, an inactive company. All significant inter-company accounts and transactions have been eliminated.

(b) Inventories
Inventories are valued at the lower of cost or replacement cost on a basis consistent with that of the prior year.

(c) Lease purchase contracts
A subsidiary company enters into a significant number of lease agreements in which the cost of the vehicles is recovered from the lease payments. In accordance with current accounting practice the present value of the future payments under the contracts is recorded in the balance sheet under the caption "lease purchase contracts". The normal gross profit on the unit is taken into income at the time the contract is written and the balance is taken into income over the life of the contract.

In addition a lesser number of units are purchased and leased back to the customers and the cost of the vehicle is recovered from the lease payments. Income is recorded over the life of the contract.

(d) Leased vehicles
A subsidiary company enters into lease agreements with customers under which the present value of lease payments results in a residual value for the vehicles. Such vehicles are recorded as "leased vehicles" and are depreciated to their estimated realizable value over the period of the related lease agreements. Monthly billings are taken into income and depreciation, interest, and other expenses are included in costs.

(e) Rental vehicles
A subsidiary company operates a truck and trailer rental business on a daily, weekly or monthly basis. Rentals are taken into income as earned. The costs of the vehicles involved in this business are being depreciated over their estimated useful lives.

(f) Gas and oil interests
The Company follows the full-cost method of accounting wherein all costs relative to the exploration for and development of gas reserves, whether productive or non-productive, are capitalized and will be depleted on the unit of production method based on estimated proven reserves of gas including royalty interest. Interest on the debenture and gas development bank loan and administrative costs are charged to expense as incurred.

(g) Depreciation
Depreciation is provided at rates which are designed to write off the assets over their estimated useful lives.

Depreciation on furniture, fixtures and equipment is provided on the declining balance method generally at a 20% rate. Leasehold improvements are amortized on the straight-line method at a 10% rate.

(h) Excess of cost of shares
The excess of cost of shares acquired over fair value of underlying net assets of subsidiary companies at date of acquisition arose during 1971 and is not being amortized.

(i) Deferred revenue and warranty
The manufacturer provides initial warranty on vehicles. A subsidiary company provides optional extended warranty generally for a two year period on automobiles and light trucks. Revenue from this source less expenses applicable thereto has been recorded as deferred revenue to be taken into income as the warranty period expires.

A subsidiary company also provides optional rust inhibitor warranty on automobiles and light trucks. A provision has been made for possible costs which may arise from this service and the balance has been taken into income.

(j) **Deferred income taxes**
The company follows the tax allocation principle of providing for income taxes, resulting in prepaid and deferred income taxes. Deferred income taxes result from revenue deferred for accounting purposes but currently includable in income for tax purposes and costs charged in the accounts, principally warranty, which are not currently deductible for tax purposes. Deferred income taxes are set up with respect to capital cost allowances claimed for tax purposes in excess of depreciation recorded in the accounts and other timing differences.

(k) **Sales**
Sales are recorded when the customer takes delivery of the unit.

(l) **Earnings per share**
Earnings per share are calculated using the weighted monthly average number of shares outstanding during the year.

2. **Inventories**

	1975	1974
New vehicles	$3,295,636	$5,906,684
Used vehicles	528,506	421,789
Parts, accessories and other	710,322	587,092
	$4,534,464	$6,915,565

3. **Gas and oil interests**
The company has:

(a) discontinued its 5% working interest in the Drumheller area of Alberta as exploratory drilling indicated marginal non-economic gas zones. Cost of the drilling was $30,000.

(b) a 3.3% gross overriding royalty on certain gas wells in the Princess area of Alberta which are expected to start producing in 1976. The purchase agreement provided for the acquisition of a 5.5% interest of which 2.2% was acquired equally for the account of a director and an unrelated company. The company is the principal debtor on the debenture and recovers from the director and the other company their proportion of the principal and interest payments as they become due. The debenture is secured by a fixed and specific mortgage of the gas royalty interest. The company maintains title to the whole interest until it has received payment in full from the director and the other company. Of the $100,000 payable on the debenture on December 1, 1976, $40,000 is recoverable from the director and the other company. The company's cost of its investment and related expenses of acquisition is $261,700.

(c) acquired in 1975, a 75% working interest in proven undeveloped gas reserves in the Medicine Hat area of Alberta for $50,000. The company's commitment for developing this field is not expected to exceed $270,000 of which $259,000 has been incurred. The company pays for all development work and recovers 25% of certain costs from the remaining interest holder. The company negotiated a line of credit amounting to $360,000 for development of the field of which $230,000 had been advanced by the bank at the year end. Production began in January, 1976.

4. **Long-term accounts receivable**
During the year ended April 30, 1970, 125,000 shares were issued to a director and officer of the company for $71,250. These shares are presently being held in escrow pending payment therefor. In accordance with the terms of the agreement under which the shares were issued, and subsequent amendments thereto, the balance which was to be settled on April 30, 1976 has been extended to provide for an instalment of $5,000 on April 30, 1976 and the balance of $41,250 on April 30, 1977. This balance is included in "Long-term accounts receivable". The current portion of $5,000 together with the $20,000 due from a director in 1976 in respect of the gas royalty interest is included in "accounts receivable".

5. **Lien notes**
The lien notes payable are secured by liens on specific new vehicles and company and service vehicles. In addition, a subsidiary has assigned short-term vehicle accounts receivable as collateral for extended terms on the lien notes.

6. Long-term liabilities

	1975		1974
	Current	Long-term	Long-term
Demand bank loan, at the prime bank rate plus 2%	$ 90,000	$ 140,000	$
Demand bank loan, at the prime bank rate plus 1½%	24,000	14,000	38,000
Lien notes at varying rates of interest and maturities:			
Leased vehicles and lease purchase contracts		3,293,005	2,593,817
Rental vehicles	11,652	12,764	103,540
Debenture at the prime bank rate plus 2% due 1978	46,276	485,988	508,991
Conditional sales contracts, at varying interest rates and maturities	17,572	54,897	73,580
Chattel mortgage at 8% due 1978	26,000	38,466	64,123
Debenture — gas interest, 9% due 1976 (see note 3 (b))	100,000		100,000
	$315,500	$4,039,120	$3,482,051

Lien notes on leased vehicles and lease purchase contracts maturing in 1976 and subsequent years are offset in each year by payments due on lease agreements with customers and in certain cases by anticipated proceeds on the sale of vehicles in the year in which the lease agreement expires. Accordingly, lien notes on leased vehicles and lease purchase contracts maturing in 1976 are not included in current liabilities.

The principal repayment requirements on lien notes on leased vehicles and lease purchase contracts are due as follows:

1976	1977	1978	1979	1980	Total
$1,419,424	$1,065,077	$686,782	$121,007	$715	$3,293,005

The principal payment requirements (net of $40,000 recoverable for 1976) except for lien notes, are due as follows:

1976	1977	1978	1979	Total
$275,500	$245,676	$483,685	$16,754	$1,021,615

The debentures existing at December 31, 1974 were repaid from the proceeds of a new debenture. The new debenture is secured by a fixed and specific mortgage on certain equipment and a first floating charge on all other assets. Under the terms of the debenture, the subsidiary company must maintain a certain debt to equity ratio.

Other covenants in the Agreement restrict or deny borrowing additional money, making loans or advances, pledging or assigning assets and guaranteeing liabilities.

All of the covenants have been complied with.

A subsidiary company has arranged for a further debenture to provide working capital up to a maximum of $450,000 depending on the net amounts receivable from the Ford Motor Company of Canada Limited. The security for any amounts advanced under this agreement is similar to that given under the debenture described above and an assignment of notes and accounts receivable, subject to the prior assignment to the bank. The total amount of both debentures cannot exceed equity, as defined.

Substantially all of the assets of the Company and its subsidiaries have been pledged as collateral for debt outstanding.

The company's investment in the shares of Mid Transportation Services Limited has been assigned as collateral security for the bank loans and it has undertaken not to further encumber its 3.3% royalty interest.

7. **Capital stock**

During 1975 the company made a further capital distribution of $100,000 to its shareholders thereby reducing its paid-up capital. These distributions are not taxable but reduce the adjusted cost base of the shares held by shareholders. The company has undertaken not to pay dividends or make capital distributions in excess of 50% of consolidated net earnings.

8. **Contingent liabilities and contractual obligations**

(a) A subsidiary company has discounted customer sales contracts with finance companies. The maximum contingent liability for losses in the event of repossessions could amount to approximately $897,000 at December 31 1975.

(b) The subsidiary company leases additional units from the manufacturer which must be purchased at the end of the term. The total commitment to purchase rental vehicles amounted to $367,000 at December 31, 1975.

(c) Under contractual obligations with respect to leased premises the company and its subsidiaries are committed to aggregate annual rental payments of approximately $260,000 from 1975 to 1978 and approximately $178,000 in 1979, and approximately $83,000 from 1980 to 1988.

(d) Under contracts with Dinvest Management Limited providing for general management services to the operating automotive dealerships, the subsidiary company was committed to annual fees of $180,000. together with a bonus of 20% based upon profits of each of the divisions. Such fees and bonus amounted to approximately $315,600. ($417,700 in 1974) of which $90,620. ($131,548 in 1974) is included in accounts payable at December 31, 1975. This agreement expired December 31, 1975. A new agreement had been negotiated to the end of 1980 providing for a monthly management fee of $15,000. plus an incentive bonus of 20% of the earnings before income taxes, which bonus is not to exceed $180,000. in any one year.

The Company has entered into a contract with Dinvest Management Limited to provide general management services to the end of 1980 at a fee of $50,000. per year plus an incentive bonus of 10% of the earnings before income taxes which bonus is not to exceed $50,000. in any year.

These management fees and incentive bonuses are now subject to an annual adjustment based on any increase or decrease in "The Consumer Price Index".

9. **Income taxes**

The company incurred exploration and development expenses in the year amounting to $308,728 and $363,486 in prior years which may be deducted from certain types of Canadian oil and gas revenue. In addition, in prior years, the company incurred exploration and development expenses amounting to $440,000 which may be deducted for tax purposes in a year in which the company's principal business is mining, or production of oil and gas, or certain related activities. Of these $511,786 has been written off in the accounts.

In addition, the company has an allowable capital loss of $25,000 which is available to offset future taxable capital gains.

10. **Anti-Inflation Program**

Effective October 14, 1975 the federal government passed The Anti-Inflation Act and subsequently issued regulations which are presently scheduled to be in force until December 31, 1978. Under this legislation the company is subject to mandatory compliance with shareholder dividends or capital distributions. Dividends or capital distributions to the company's shareholders during the year ending October 13, 1976 may not exceed $.02 per share.

AUDITORS' REPORT

To the Shareholders of
Mid Industries and Explorations Limited:

We have examined the consolidated balance sheet of Mid Industries and Explorations Limited as at December 31, 1975 and the consolidated statements of net earnings, deficit and changes in financial position for the year then ended and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us, and as shown by the books of the companies, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the state of the consolidated affairs of the companies as at December 31, 1975 and the consolidated results of their operations and the consolidated changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Windsor, Ontario,
February 21, 1976.
(except as to note 8(d) which is as of March 4, 1976)

CLARKSON, GORDON & CO.
Chartered Accountants